

Realty Stock Review

May 13, 1988 (Priced May 16)

VOL. XIX, NO. 9

GROUP REVIEW: MORTGAGE REIT AND BANKER STOCKS LESS ATTRACTIVE AS RATES RISE

With interest rates starting to kick up their heels, mortgage REIT and mortgage banking stocks become less attractive in our group review. Some selective values are still available but overall rate risk makes most short-term holds only.

The rate spurt is well known: banks raised their prime to 9.0% on May 11 and the Federal Reserve is believed tightening credit to head off incipient inflation. Even big drops in the jobless rate and the trade deficit are seen as negatives because they indicate the U.S. economy is running full tilt.

Interest rate sensitive stocks get hit in such times because investors can collect good yields in Treasuries: 8.6% in 5-year Treasuries and 9.2% on 30-year bonds. Market prices on mortgage entities get marked down so yields compete.

The 14 stocks reviewed this issue yield anywhere from zero (**Integrated Resources**) to 13.8% (**BRT Realty**) and average 9.6%. Current price is 4% over historic cost book value, ranging from an 81% premium over book for **Lomas & Nettleton Financial** to 35% discount for **ICM Realty**. Three have posted current values above book value and discounts

are larger when based on these current values. The trio: **Copley Properties**, **MONY Real Estate**, and **Wells Fargo Mtg.**

All stocks are Ranked B and C, mainly due to volatile EPS. Rankings are based on EPS and dividend growth, balance sheet strength, and exposure to outside forces; they are not recommendations. For income, buy/holds are: **BRT Realty**, **Mellon Participating**, and **Strategic Mtg.** Equity plays can be found in **MONY Real Estate**, an unusual Oil Patch recovery play, and **Copley Properties**, altho near-term outlook is clouded. Here's a summary of Ranks and Ranking changes, yield, and price/book ratio:

	Rank	Yield	Price/Book
Amer. Realty...C		13.0%	- 30%
BRT Realty.....B		13.8	+ 23
Cenvill Inv....B(+)		12.0	+ 41
Copley Props...B(I)		8.8	+ 7(-16*)
Fed. Nat.Mtg...B(+)		2.0	+ 60
ICM Property...B		13.4	- 35
Integrated Res.C		0.0	- 9
L&N Housing....C		7.4	- 1
Lomas & Net.Fin.B(-)		8.2	+ 81
Lomas & Net.Mtg.B(-)		11.7	- 6
Mellon Partic..C(I)		11.3	- 12
MONY Real Es...B		9.8	- 21(-31*)
Strat. Mtg.In..B(I)		12.4	- 10
Wells Fargo MI.C(-)		10.4	- 27(-46*)
TOTAL/AVG....		9.6%	+ 4%

Ranking Changes: + Up; - Down; I=Initial. *Price to current value.

RANKING REVIEW ISSUE		
Mortgage REITs & Bankers.. 1	Copley Properties Inc.....3	Lomas & Net. Mtg. Inv..6
REVIEWS OF STOCKS		Mellon Partic. Mtg.....7
American Realty Trust.....2	Federal Nat. Mtg. Assn....4	MONY Real Estate Inv...7
BRT Realty Trust.....2	ICM Property Investors....4	Strategic Mtg. Invest..8
Cenvill Investors Inc.....3	Integrated Resources Inc..5	Wells Fargo Mtg. & Eq..8
	L&N Housing Corp.....5	
	Lomas & Net. Financial Cp.6	

NOW AVAILABLE: Our revised brochure describing our money management services. Send for a free sample copy of our sister service **REALTY STOCK DIGEST**.

KENNETH D. CAMPBELL, PRESIDENT; FAYE KREISMAN, STATISTICS; MICHAEL HOUSTON, ANALYST; AUDIT INVESTMENTS, INC.
136 SUMMIT AVENUE, MONTVALE, NJ 07645-1720 Phone (201) 358-2735

REALTY STOCK REVIEW is published by Audit Investments, Inc., an independent advisor registered with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Under no circumstances is anything contained herein to be construed as an offer to purchase or a solicitation to sell any security mentioned. Information has been obtained from sources believed to be reliable and reasonable care has been exercised in compilation, but accuracy or completeness cannot be guaranteed. Expressions of opinion are solely the responsibility of the publisher and may be changed at any time without notice. Periodical advisory services are mailed to reach subscribers no later than the Monday following publication date: Audit's officers, employees and printers are not permitted to trade upon any recommendation until the Tuesday following. Investment management clients of Audit may be effecting transactions in securities at any time. Audit will not assign subscriptions without your consent and unused portion refunded upon request. Copyright © 1988 by Audit Investments, Inc., 136 Summit Avenue, Montvale, New Jersey 07645-1720. May not be reproduced or photographed in any form without written permission. Additional copies available at group rates.

PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS; SUBSCRIPTION \$264 ANNUALLY/GROUP RATES ON REQUEST

AMERICAN REALTY TRUST

\$4.63 (ARB-NYSE) Div. \$0.60 Yld. 13.0%
21.73 mil. shares **RANK C**

ARB was restructured into a mortgage trust in 1987 by its 41.5% shareholder, Southmark Corp. (SM), which provided an initial package of mortgages. ARB resumed dividends, requalified as a REIT, and listed NYSE. Shs. give higher, more speculative income.

Earnings/Dividends - B (Dec. yrs.):

Year	Op.EPS	Div.	Yld.Range
9/84A.....	(\$0.51)a	\$0.00	0.0- 0.0%
9/85A.....	0.18a	0.00	0.0- 0.0
9/86A.....	0.39a	2.50	NM-- NM
12/87A.....	0.88	0.52b	16.0- 6.3
1988E.....	0.60	0.60	14.1-11.7z
5 Yr.Growth.	NM%	NM%	z-To date

a-Bef.cap.gains: \$3.08 '84; \$1.10 '85; \$0.14 '86; \$1.08 '87. b-Annualized.

EPS more than doubled in 1987 on a 160% gain in total assets following sale of 12.1 mil. shs. at \$3.75 to raise \$45 mil. Interest expense rose but net spread widened. Property operations were marginally profitable and ARB sold two major properties on Dec. 31. We see lower but more sustainable EPS for 1988. Dividends at 60¢ are expected, and will include about 16¢ recognized as accrual income but not currently paid in cash under mortgage contracts.

Assets and Operations: Invested assets of \$163.5 mil. are 98% mortgages and 2% properties. Mortgages of \$159.8 mil. are 57% firsts (26% commercial, 21% land, 10% residential); 21% wraparound loans (subject to \$21.5 mil. payables); 21% seconds; 2% thirds and others. A total 22% are due from SM affiliates. About 58% (or \$93 mil.) of loans are under a keepwell agreement pledging SM to provide substitute collateral in case of default. Thus all loans are current.

ARB sold a large downtown Atlanta land parcel and Nevada hotel in Dec. for \$18.5 mil. gains net of taxes. One large St. Louis office remains.

Financial Measures - C: \$44.2 mil. debt is 0.3 times \$143.1 mil. shareholders equity or \$6.59/sh. Liquidity appears adequate.

Exposure/Recommendation - C: ARB is likely to be restrained by SM's widely known problems (RSR, Apr. 22). Hold.

Address: 15770 Dallas Pkwy., #1100, Dallas, TX 75248. (214) 233-0100.

BRT REALTY TRUST

\$18.00 (BRT-NYSE) Div. \$2.48 Yld. 13.8%
7.17 mil. shares. **RANK B**

Once a smaller combination REIT, BRT has been revitalized as a short-term mortgage lender under guidance of principals of Gould Investors L.P. BRT is most active in lending to convert New York City apartments to co-operatives and condominiums.

Earnings/Dividends - A (Sept. yrs.):

Year	Op.EPS	Div.	Yld.Range
1984A.....	\$0.94	\$0.00	0.0- 0.0%
1985A.....	1.26	0.00	0.0- 0.0
1986A.....	1.75	0.40b	22.4- 9.4
1987A.....	2.33a	1.99	14.1- 9.9
1988E.....	2.50-60	2.48	17.2-13.0z
4 Yr.Growth.	+25.7%	NM%	z-To date

a-Excl. 7¢ cap. gains. b-\$1.60 annualized.

BRT operating earnings rose 33% to \$2.33/sh. in FY 1987. BRT also earned 7¢ on sale of shares in a former REIT in 1987. EPS rose 19% in the six months thru Mar. 1988 to \$1.30/sh.; prepayment of one loan added 15¢ to this total. Dividends rose to \$2.48 annual rate in the Mar. qtr. and should level as \$27 mil. raised in a Feb.'88 offer of 1.55 mil. shs. at \$18.88/sh. are invested.

Assets and Operations: Invested assets of \$185 mil. at Mar. 31 are 96.5% earning mortgages and 3.5% nonearning. Mortgages are 44% first mortgage loans, nearly all short-term; 53% junior mortgages, of which approx. two-thirds are secured by apartment projects; and 3% wraparound mortgages. Most loans secure properties in the New York metropolitan area, and are generally made as bridge or temporary financing for conversion or rehabilitation of apartments, with terms from 6 to 36 mon. BRT seeks to enhance yield by participating in gross revenues from conversion and selling participations in some loans. Nonearning loans have been well controlled.

Financial Measures - B: Debt of \$82.2 mil. is 0.8 times increased equity of \$103.4 mil. or \$14.58/sh. About 16% of shares are owned by the Gould family.

Exposure/Recommendation - B: So far BRT has been adept in a sophisticated lending market and its principals know the market well. Buy/hold for income.

Address: 60 Cutter Mill Rd., Great Neck, N.Y. 11021. (516) 466-3100.

CENVILL INVESTORS INC.

\$18.38 (CVI-NYSE) Div. \$2.20 Yld. 12.0%
6.88 mil. shares. **RANK B**

CVI lends construction and development loans mainly secured by Fla. condo and apartment developments. About 24% of loans are to Cenvill Development (ASE), a related entity. While yield has fallen with all interest rates, performance has been good longer-term.

Earnings/Dividends - B (Dec. yrs.):

Year	Op.EPS	Div.	Yld.Range
1984A.....	\$2.28a	\$2.60	14.0-10.4%
1985A.....	2.12a	2.35	15.3-10.2
1986A.....	2.07	2.00	12.8-10.0
1987A.....	2.20a	2.15	13.2- 9.8
1988E.....	2.20	2.20	12.8-10.7z
5 Yr.Growth.	-0.9%	-4.1%	z-To date.

a-Incl. amortized & current sale gains: '84 \$0.13; '85 \$0.04; '87 \$0.10.

EPS have declined along with general interest rates as new mortgage loans command lower yields. 1987 EPS rose 1.4% excluding a 10¢ sh. property sale gain, reflecting a slightly lower 2.2% net interest spread on 13% higher mortgage fundings. Mar. qtr. EPS of 51¢ was down 16%; CVI should continue payout at the \$2.20 annual rate.

Assets and Operations: Invested assets of \$203.7 mil. at year-end 1987 rose 13%. Investments are 22% second mortgages secured by recreational facilities in Cenvill Development Co. projects (CVI was spun off from CDC in 1981); 25% notes secured by property in current CDC developments; 2% subordinated CDC notes; 39% loans to other projects; 10% GNMA certificates; and 3% property, mainly a shopping center. CVI plans renovating the center to boost rents after winning a favorable verdict against a former tenant.

Financial Measures - B: \$99.2 mil. debt is 1.1 times equity of \$89.9 mil. or \$13.07/sh. Officers and directors, including original sponsors of Cenvill Development, own 26% of shares.

Exposure/Recommendation - B: CVI operates in the highly competitive south Florida realty development and condo market, where its managers have long operated successfully. Shares have moderate rate risk; hold for income.

Address: Century Vil. Admin. Bldg., N. Haverhill Rd., West Palm Beach, Fla. 33417. (305) 686-2577.

COPLEY PROPERTIES, INC.

\$19.13 (COP-ASE) Div. \$1.68 Yld. 8.8%
4.01 mil. shares. **RANK B**

COP is a developmental participating mortgage REIT, investing in to-be-built properties via mortgages and joint ventures with seasoned developers known to its sponsor, New England Life. We are Ranking shares B initially.

Earnings/Dividends - B (Dec. yrs.):

Year	Op.EPS	Op.CFS	Div.	Yld.Range
1985A....	\$0.62	\$0.66a	\$0.28	NM - NM
1986A....	1.36	1.51a	1.65	10.1-8.3%
1987A....	1.06	1.59a	1.68	11.5-7.3
1988E....	NE	1.62	1.68	10.1-8.6z
3 Yr.Growth.	+3.6%	+1.5%	z-To date.	

a-Per Audit; Trust says: \$1.63 & \$1.80

COP's earnings are falling (off 22% to \$1.06 in 1987) while cash flow grows, all due to growing depreciation on properties owned by joint ventures and the vagaries of joint venture accounting. Cash flow as reckoned by Audit was up 5% to \$1.59 but grew a stronger 10% by COP's computation. Mar. qtr. EPS was 26¢, down 7%, but focus is on whether a Los Angeles property becomes nonearning at end of June. This likely will restrain cash available for distributions and raises in the \$1.68 payout.

Assets and Operations: COP invests mainly in industrial and research/development buildings, acquiring 50%-60% equity interests by funding essentially all land and improvement costs so as to buy at wholesale cost. Investments of \$86.4 mil. are 59% construction loans, 30% joint ventures, 8% mortgage loans, and 2% land and options. COP has interests in four completed projects with 1.31 mil. SF (90% leased); and six properties under development with 0.98 mil. SF (and 63% leased). Interest reserve on slow-leasing Corporate Ctr. (L.A.) ends in June and this asset may become nonearning at 15¢ sh. yearly cost.

Financing - A: Debt of \$14.6 mil. is 0.2 times \$71 mil. equity (\$17.81 sh.). In 1987 COP obtained \$17 mil. third party financing for two assets.

Current value: Outside appraisers put property value at \$22.88/sh., up 8%.

Exposure/Advice - B: COP pursues an aggressive strategy in search of high reward. Near term is uncertain. Hold/buy.

Address: 399 Boylston St., Boston, Mass. 02116. (617) 578-1200.

FEDERAL NATIONAL MTG. ASSN.

\$36.75 (FNM-NYSE) Div. \$0.72 Yld. 2.0%
78.7 mil. shares. **RANK B**

FNM is a Federally chartered and stockholder owned company providing liquidity to the national secondary mortgage market. It purchases mortgages from local originators and either holds them or repackages for sale to other mortgage investors. It finances purchases by selling "agency status" securities. The highly leveraged stock is a barometer of money market trends, but new products are cutting EPS volatility.

Earnings/Dividends - A (Dec. yrs.):

Year	Op.EPS(Dil.)	Div.	Yld.Range
1984A.....	(\$1.08)	\$0.16	1.5-0.6%
1985A.....	(0.10)	0.16	1.1-0.5
1986A.....	1.42	0.20	0.9-0.5
1987A.....	4.63	0.36	1.4-0.7
1988E.....	5.00	0.72	2.5-2.0z
5 Yr.Growth. +	NM%	+45.6%	z-To date

FNM's earnings rebounded strongly in recent years as it upgraded mortgage portfolio yield, developed new mortgage products, and lowered financing costs. 1987 EPS benefitted by \$3.57 cumulative effect of an accounting change, offset in part by balance sheet and other adjustments; EPS would have been \$2.98/sh. without these items. Mar. qtr. EPS rose 68% to \$1.28/sh. Dividends were doubled in the Mar. qtr. to 72¢.

Assets and Operations: Mortgage investments of \$99.8 bil. at end of Mar. are 43% conventional fixed-rate 30-yr. loans; 20% conventional intermediate term; 13% fixed-rate FHA/VA; 16% adjustable rate; 7% multifamily. Mortgages yielded 9.89% at end of Mar., down from 10.00% in Dec. FNM bought \$6.7 bil. loans in the Mar. qtr. at average 9.10%.

FNM has become a major issuer and guarantor of mortgage backed securities (MBS). It issued \$8.2 bil. MBS in the qtr. and had \$145.2 bil. outstanding. MBS fee income rose 50% to \$263 mil. in 1987, and should reach \$300 mil. this year. Loan losses have restrained EPS and FNM added \$360 mil. loss provision in 1987, up 18%; reserves are \$346 mil.

Financial Measures - C: Debt of \$97B is 54 times \$1.8B equity, or \$23.00/sh.

Exposure/Advice - A: Buy/hold these volatile shares for further gains.

Address: 3900 Wisconsin Ave. N.W., Washington, D.C. 20016. (202) 537-7115.

ICM PROPERTY INVESTORS INC.

\$10.13 (ICM-NYSE) Div. \$1.36 Yld. 13.4%
5.71 mil. shares. **RANK B**

ICM invests in both debt and equity positions, individually and thru joint venture partnership, in office properties. Soft leasing markets have hurt; complex accounting obscures results.

EPS/CFS/Dividends - B (Dec. years):

Year	Op.EPS	Op.CFS	Div.	Yld.Range
1985A.....	1.19	NM	1.21	6.1- 8.6%
1986A.....	0.67	1.43	1.39	8.6-10.5
1987A.....	d0.90a	1.25	1.48	9.5-18.5
1988E.....	d0.40	1.20	1.36	11.8-16.0z
3 Yr.Gro.	NM%	-8.4%	-1.1%	z-To date

a-Incl. 73¢ investment writedown.

ICM's complex joint venture format obscures results; under general accounting principles cash paid to ICM by ventures is reported as reduction in investment cost. On a cash flow basis, ICM uses this cash for dividends. The 1987 loss included 73¢ writedown of investment in a San Antonio office. Mar. qtr. results were in line with expectations: a loss of 10¢/sh. vs. 30¢ positive cash flow. The \$1.36 dividend could be imperiled.

Assets and Operations: ICM's \$93.6 mil. portfolio divides 58% joint venture partnerships (ICM investment: \$7.7 mil. equity, \$46.3 first mortgages); 29% wholly-owned properties; and 13% in an 80% participating construction loan. ICM's recent choice of investment has been equity gap funding of partnerships, where developer contributes property, subject to existing third-party financing, and ICM makes small initial equity contribution, in exchange for a preferred property interest. Year-end investment with Feb. 1988 occupancy:

Type(number)	Mil.\$	Sq.Ft.	Occ.
Joint ventures(2)	\$48.8M	421,000	80%
Wholly owned (2) ..	27.1	197,200	82
Par.Const.loan (1)	12.5	165,700	60
Equity gaps (3) ...	5.2	534,600	63
Totals.....	\$93.6M	1,318,600	72%

Financial Measures - A: Debt of \$8.6 mil. is 0.10 times stockholders equity of \$89.5 mil. or \$15.67/share.

Exposure/Advice - C: ICM is run by seasoned REIT executives and represents their judgment call on office markets. Shs. are a long-term hold.

Address: 600 Third Ave., New York, N.Y. 10016. Phone: (212) 986-5640.

INTEGRATED RESOURCES INC.

\$16.63 (IRE-NYSE) Div. \$0.00 Yld. 0.0%
7.74 mil. shares. **RANK C**

Once king of tax-shelter syndicators, IRE has totally revamped product line and income stream. EPS however remain highly leveraged, imparting volatility to shares.

Earnings/Dividends - B (Dec. yrs.):

Year	Op.EPS(Dil.)	Div.	Price Range
1984A.....	\$3.22	\$0.00	29.50-11.88
1985A.....	3.17a	0.00	26.38-13.75
1986A.....	1.06a	0.00	40.25-16.25
1987A.....	2.98a	0.00	32.88-14.75
1988E.....	3.00	0.00	23.75-14.75z
5 Yr.Growth.	-1.8%	NM%	z-To date.

a-Before losses on extra items: '85 \$1.13; '86 \$2.79; '87 \$0.25.

EPS rebounded sharply in 1987, with IRE earning \$2.98/sh. fully diluted from operations. After 25¢ losses from early debt retirement, IRE netted \$2.73. Revenues rose 34% to \$1.1 bil., with commissions and fees up 59%; life insurance premiums up 47%; interest (mostly on investor notes) up 27%; offset by a 5% decline in investment program income. Operating EPS rose 5% to 21¢ in the Mar. qtr. IRE does not pay dividends.

Assets and Operations: Life insurance, IRE's fastest growing segment in terms of revenue, generated 33% (\$56.4 mil.) of operating income in 1987, down from 35%. Net premium income rose 47% to \$361.6 mil.; about 56% is direct annuities. Investment program operating income from sales of equity programs soared 61% to \$134 mil. IRE programs raised \$821 mil. in 1987 (67% public, 33% private), up 4% but below the peak \$1.03 bil. in 1985. Financial income on investment program receivables and investments generated swung to a \$17.6 mil. operating loss.

Financial Measures - C: Debt of \$1.23 bil. is 2.4 times total equity of \$520.3 mil., which includes \$352.6 mil. in preferreds and \$167.7 mil. net common equity, equal to \$18.35/sh. after adjustments. IRE runs cash-flow negative and requires periodic outside funds.

Exposure/Advice - C: IRE uses higher leverage and relies on external funds in bid to become a major financial services firm. Shs. for venturesome.

Address: 666 Third Ave., New York, N.Y. 10017. (212) 551-6000.

L&N HOUSING CORP.

\$22.75 (LHC-NYSE) Div. \$1.68 Yld. 7.4%
2.20 mil. shares. **RANK C**

Designed as an aggressive participating mortgage REIT, market conditions were excellent at inception and LHC invested in projects yielding from 12% to 15%. Today, overbuilding, economic straits in its principal markets and the roll-over of its investments at much lower rates spell tougher times for LHC.

Earnings/Dividends - C (Dec. yrs.):

Year	Op.EPS	Div.	Yld.Range
1984A.....	\$2.84a	\$2.84	10.6-12.6%
1985A.....	3.02a	2.94	9.2-11.4
1986A.....	2.23a	2.46	7.2-14.5
1987A.....	1.98a	2.40	8.5-14.4
1988E.....	1.60	1.68	6.9- 9.1z
5 Yr.Growth	-13.4%	-12.3%	z-To date.

a-Incl. land sale gains: \$0.27 '84; \$0.41 '85; \$0.23 '86; \$0.23 '87.

EPS was down 11% in 1987. Interest income of \$2.9 mil., down 43% from \$5.1 mil. in 1986, on decline in invested assets. LHC invested \$37.5 mil. in loan participations with L&N Financial in 1987 but resold \$22.5 mil. in Jan.'88 to fund new investments and repay \$17 mil. bank debt. Dividend decreased 16% in Oct. from \$2.00 rate to the current \$1.68 rate, regarded as tentative.

Assets and Operations: Only four of LHC's early investments remain on books: two are substandard earning 5.5-6% (St. Tropez and Knollwood Apts.) and two are refinanced at reduced 7.5% and 9% yields (Rivercrest and Willowglen I Apts.). New investments include: (a) \$7 mil. in Liberty Corners shopping center (120,264 sq. ft., Kansas City, MO, 66% occ.), funded Jan. '88; (b) \$6 mil. for Cowesett Corners shopping center (132,200 sq. ft., Warwick, RI, 66% occ.) to yield 9.75% but has not funded to date; (c) \$5.2 mil. in Linpro Commerce Center in Ft. Lauderdale, funded June 1987 to yield 9.75%.

Financial Measures - B: Year-end debt of \$21 mil. is 0.42 times equity of \$50.3 mil. (\$22.88/sh.). LHC paid down bank debt by \$17 mil. in Jan. 1988.

Exposure/Advice - C: Recent results indicate LHC is feeling impact of real estate depression in the Oil Patch. Approach shs. with caution.

Address: 2001 Bryan Tower, P.O. Box 655644, Dallas, TX 75265. (214) 764-7111.

LOMAS & NETTLETON FINANCIAL CORP.

\$17.13 (LNF-NYSE) Div. \$1.40 Yld. 8.2%
 29.88 mil. shares RANK B

LNF, the nation's largest mortgage banker, is now diversifying rapidly into related financial services, and only about 25% of 1988 income will come from mortgage banking. The risk is that new lines will be counted upon heavily.

Earnings/Dividends - B (June yrs.):

Year	EPS dil.	Div.	Yld. Range
1984A.....	\$1.39	\$0.69	2.6-3.6%
1985A.....	1.61	0.81	2.6-3.6
1986A.....	1.83	0.97	2.7-4.7
1987A.....	1.45	1.26	3.2-5.4
1988E.....	d1.50	1.40	4.1-9.3z
5 Yr. Growth.	NM%	+19.3%	z-To date.

LNF took a \$2.52 sh. charge (\$93 mil.) in the Mar. qtr. to restructure its mortgage banking unit and discontinue homebuilding operations. LNF reported losses of \$2.44/sh. in the Mar. qtr. and \$1.97 diluted in the nine months. With cash flow unaffected by the charge, dividends will likely hold at \$1.40.

Assets and Operations: In 1987, LNF acquired significant new commercial leasing, retail banking, and life insurance operations for \$610 mil. LNF expected 1988 pre-restructure revenues of \$1.23 bil., divided 25% mortgage banking, 28% leasing; 18.5% retail banking, 19% life insurance, and 10% short-term lending and realty development. Operating loss of \$33.6 mil. thru Mar., before interest, overhead and taxes, was: \$130.8 mil. loss on mortgage banking and real estate; offset by income of \$24 mil. short-term lending; \$17 mil. insurance; \$29 mil. banking; \$27 mil. leasing.

Financial Measures - B: Term notes, convertible debentures and other debt of \$2.21 bil. at Mar.31 are 4.3 times \$515.8 mil. shareholders' equity after the loss. Net equity equals \$8.76/sh. after preferreds and the Mar. loss but including \$7.59/sh. goodwill and \$23.53/sh. purchased future servicing.

Exposure/Advice - B: LNF has an excellent record of planning its business to reduce volatility and wisely expanded into new areas during a time of unrest in its basic mortgage banking lines. Shares periodically are said to be takeover targets. Hold and watch.

Address: 2001 Bryan Tower, P.O. Box 655644, Dallas, TX 75265. (214)746-7100.

LOMAS & NETTLETON MTG. INVESTORS

\$21.63 (LOM-NYSE) Div. \$2.54 Yld. 11.7%
 11.70 mil. shares. RANK B

LOM is a pure short-term mortgage REIT, managed by Lomas & Nettleton Financial Corp. LOM has compiled an excellent record of maintaining dividend and liquidity. Debt looks high and we are reducing Rank to B.

Earnings/Dividends - A (June yrs.):

Year	EPS dil.	Div.	Yld. Range
1984A.....	\$2.17a	\$2.17	10.0-13.4%
1985A.....	2.49a	2.45	8.6-14.5
1986A.....	2.61a	2.69	7.9-11.2
1987A.....	2.42a	2.49	7.7-11.3
1988E.....	2.54a	2.54	11.2-16.0z
5 Yr. Growth.	+4.0%	+4.0%	z-To date.

a-Fully diluted.

We expect 1988 EPS to rise about 5%, mainly because of an 8% rise in loan fundings and higher interest rates. Underlying loan problems are rising but still don't threaten. LOM pays substantially all EPS as dividends. Mar. qtr. earnings are \$0.64 per share, up 8.5% fully diluted. For the 9 mo. LOM reported \$1.90 sh., up 5%.

Assets and Operations: LOM makes construction and development loans financed with equity and short-term debt. LOM profits from interest on the equity-funded portion and net interest spread on debt-funded loans. LOM's funded investments of \$1.06 bil. at Mar. 1988 were 3.6% earning mortgages, 0.2% earning foreclosures, and 6.4% nonearning foreclosures and loans, up from 4.0% in Dec. Loans averaged 10.80% yield at Mar. 1988 vs. 7.38% average fund cost for a 3.42% spread on borrowings, up 0.17% over Dec. qtr.

Loans average 15 mon. terms and are about 57% construction first mortgages, 25% acquisition/development firsts, and the rest other loans. Loans outstanding are about 27% Texas, 14% Fla., 12% Cal.

Financial Measures - B: Debt of \$798.5 mil. at Mar. is 3.0 times equity of \$268 mil. or \$22.90/sh. Most debt is short-term, mainly commercial paper, plus \$99 mil. long-term.

Exposure/Advice - B: Control of Texas losses while shifting holdings elsewhere has sustained EPS and dividends. Rising rates could hurt. Hold.

Address: 2001 Bryan Tower, P.O. Box 655644, Dallas, TX 75265. (214)746-7111.

MELLON PARTICIPATING MORTGAGE

\$8.13 (MPMTS-OTC) Div. \$0.92 Yld. 11.3%
8.63 mil. shares.

RANK C

This finite-life mortgage REIT went public in Feb. 1985 with an expected 10 year life. MPMTS invests in participating, shared appreciation, convertible and fixed-rate mortgages and joint ventures across the country. Shs. Rank C.

Earnings/Dividends - C (Dec. yrs):

Year	EPS	Div.	Yld.	Range
1985A.....	\$0.83a	\$0.8675a	8.3-10.4%	
1986A.....	1.03	1.07	10.0-12.2	
1987A.....	0.88	0.937	12.0-14.4	
1988E.....	0.85	0.90	11.1-12.6z	
3 Yr.Growth.	+0.6%	+0.9%	z-To date.	

a-For period from 2/13 to 12/31/85.

MPMTS' earnings were down 15% in 1987 on decreased interest income, increased operating expenses and advisory fees. If manufacturing improves in 1988, which appears likely, MPMTS' two industrial properties should benefit. However, with Mar. 31 repayment of the 10.75%, \$4.7 mil. Cabriole Center loan, income suffers until funds are reinvested. MPMTS paid 13.7¢ in Feb. as a 1987 carryover; 1988 recurring payout should be about 90¢.

Assets and Operations: At year-end, MPMTS had \$74.3 mil. invested in seven participating mortgage loans and a Pier 1 joint venture with average 11.6% yield. Yield on new investments has been falling. During 1987 MPMTS invested \$13 mil. in a \$52.5 mil. joint venture with Pier 1 Imports, Inc. to develop 35-50 retail stores (two are operating and in overages). MPMTS gets 9.75% plus longer-term participations until a cumulative 12% return is reached. All other investments are running full except Peachtree Business Center (Atlanta), approx. 53% occupied.

Financial Measures - A: Short-term debt of \$13 mil. is a low 0.16 times shareholders equity of \$79.5 mil. or \$9.20 per share. Cash and equivalents (including \$17.7 mil. of Olympia & York floating rate notes) were \$2.05/sh.

Exposure/Advice - B: Aside from questions in Atlanta, real focus is on the Pier 1 venture; while still in infancy, this could be an interesting longer-term plus. Buy/hold for yield.

Address: 551 Madison Avenue, New York, NY 10022. Phone: (212) 702-4040.

MONY REAL ESTATE INVESTORS

\$7.38 (MYM-NYSE) Div. \$0.72 Yld. 9.8%
10.59 mil. shares.

RANK B

MYM continues with its goal of converting from a mortgage into a combination equity and mortgage REIT. The transition has led to dividend declines but could be rewarding longer-term.

EPS/CFS/Dividends - B (May years):

Year	Op.EPS	Op.CFS	Div.	Yld.	Range
1984A.....	\$0.81a	\$0.95	\$0.80	7.8-11.4%	
1985A.....	0.88a	0.97	0.84	8.3-12.4	
1986A.....	0.76a	0.87	0.88	8.6-10.7	
1987A.....	0.55a	0.79	0.80	7.1-10.0	
1988E.....	0.50a	0.71	0.72	8.3-13.1z	
5 Yr.Gro.	-11.4%	-7.0%	-2.6%	z-To date.	

a-Excl. sale gains: \$0.08 '84; \$0.14 '85; \$0.03 '86; \$0.14 '87; \$0.06 '88E.

Operating EPS of 39¢ was level in the Feb. 1988 9 mon., but operating CFS rose 6% to 52¢, all before capital gains in both years. MYM is essentially supporting payout with modest capital gains until operating properties mature. Dividends should hold at 72¢ rate.

Assets and Operations: Assets of \$210 mil. are 23% equities and partnerships and 73% mortgage-type assets. Mortgages are 63% construction and intermediate loans; 30% long-term loans and a non-earning loan (2.6%). To ease transition, MYM made about \$41 mil. 3-5 yr. mortgages on leased properties, fully funded in 1987 at favorable spreads. MYM's equity holdings include three shopping centers with 297,400 net SF, 95% occupied; five industrial/warehouse buildings with net 528,900 SF, 84% occupied (all vacancy in one Atlanta property); three offices with 280,250 net SF, 83% occupied, with largest vacancies in Westport, CT and Dallas.

Financial Measures - A: Debt of \$109 mil. at Feb. '88 is 1.1 times \$98.5 mil. equity, equal to \$9.30/sh. Debt is 74% commercial paper, 23% intermediate-term debt due 1990. Liquidity is good.

Current value: MYM's equities are appraised independently at \$11.2 mil. or about \$1.38/sh. over book value.

Exposure/Advice - B: MYM is building an institutional quality equity portfolio with Sunbelt orientation. MYM cut exposure to interest rate swings. Buy for Oil Patch recovery play.

Address: 1740 Broadway, New York, NY 10019. Phone: (212) 586-6716.

STRATEGIC MORTGAGE INVESTMENTS INC.

\$16.50 (STM-NYSE) Div. \$2.04 Yld. 12.4%
5.47 mil. shares. **RANK B**

STM follows a conservative strategy of investing in owner occupied residential mortgages, for its own portfolio and to pledge for the issuance of collateralized mortgage obligations (CMOs).

Earnings/Dividends - B (Dec. yrs.):

Year	EPS	Div.	Yld.	Range
1984A.....	\$0.05a	\$ a	a	%
1985A.....	\$1.80b	\$1.30	6.0-	7.6
1986A.....	2.33b	2.27	9.7-	13.0
1987A.....	2.19b	2.89c	11.8-	21.6
1988E.....	2.10e	2.04e	10.9-	13.6z
4 Yr.Growth.	+5.3%	+16.2%	z-To date.	

a-Went public 12/84; b-Incl. GNMA sales gains: \$0.05/sh. '85; \$0.23/sh. '86; \$0.07/sh. '87; c-Five qtrs. divs. on tax change; e-Excl. GNMA sale gains.

EPS declined 6% in 1987. EPS equals 11.9% return on net book value and 11% on the initial \$20 offering price. STM paid a Mar. 1988 qtr. dividend of \$0.51/sh. (\$2.04 annualized) which should hold.

Assets & Operations: At year end, STM had an investment of \$297.3 mil in first mortgages. Of these, \$151.9 mil. were in its own portfolio, while \$145.4 mil. were pledged as collateral for CMO's. STM has 2 issues of CMO's, both with a 1.00% initial positive spread, ensuring cost will not exceed income during estimated life of underlying loans. The balance of STM's investment in real estate is \$48.7 mil. (\$8.90/sh.) net GNMA securities under reverse repurchase agreements with average yield of 9.7% vs. 8.6% average cost. STM funded \$96.5 mil. mortgages in 1987, down 53% from \$204.9 mil. in 1986. STM's loan to value ratio on its portfolio is at 53%.

Financial Measures - A: Debt of \$70.7 mil. is 0.7 times shareholders equity of \$100.5 mil. (\$18.40/sh.). STM's average yield on investments at year-end was 10.3% and cost of funds under its short-term commercial paper program is 7.8%.

Exposure/Advice - B: If rates rise in 1988, STM's mortgage commitment fees will suffer, but prepayments, which reduce CMO returns, would decline. Yield makes stock attractive.

Address: 700 North Central Avenue, Glendale, CA 91203. (818) 247-6057.

WELLS FARGO MTG. & EQUITY TRUST

\$14.38 (WFM-NYSE) Div. \$1.50 Yld. 10.4%
6.70 mil. shares. **RANK C**

WFM, a hybrid REIT with a troubled equity portfolio and a soundly underwritten mortgage component, ended liquidation plans in Feb. when it couldn't package troubled investments (mainly TX) that erode operating EPS and dividends.

EPS/CFS/Dividends - C (June yrs.):

Year	Op.EPS	Op.CFS	Div.	Yld.	Range
1984A.....	\$1.98a	\$2.49	\$2.80	9.7-	12.2%
1985A.....	1.96a	2.52	2.80	9.9-	12.1
1986A.....	1.58a	2.24	2.80	9.6-	13.7
1987A.....	1.04a	1.81	2.20	7.3-	12.6
1988E.....	0.50a	1.90	1.75	5.8-	10.0z
5 Yr.Gr.-	-29.1%	-6.5%	-11.1%	z-To date.	

a-Before sale gains: \$0.59 '84; \$0.49 '85; \$0.84 '86; \$0.48 '87.

WFM had loss of \$0.04/sh. in Mar. qtr., including \$0.20/sh. extraordinary cost of terminating liquidation agreement. Nine month earnings are off 74% to \$0.26/sh. from \$1.01 in the 1987 period. WFM cut payout 25% in the Mar. 1988, qtr. to \$0.375. The current \$1.50 rate should be sustainable, altho environment is uncertain.

Assets and Operations: Invested assets of \$497 mil. at 12/31/87 were \$173 mil. equities before depreciation (35%) and \$324 mil. mortgages (65%). Non- and partially-earning loans and foreclosures grew to \$22.3 mil. or 6.9% of mortgages by 12/87. All but one \$2.7 mil. loan are in Texas. Equities are approx. 58% income properties owned directly; 37.5% partnerships divided between loans and equity contributions; and 5% equity-sharing loans.

Financial Measures - B: Debt of \$361 mil. is 2.7 times equity of \$132.1 mil. or \$19.78/sh. \$308 mil. of debt is matched to short- and intermediate-term mortgages of \$343 mil. Remaining debt is all fixed rate including \$27.6 mil. debentures convertible at \$25.025 per share. Fully diluted book value is \$20.52/sh. Liquidity is adequate.

Current Value: WFM reports 6/30/87 net asset value at \$26.86/sh., off 11%.

Exposure/Advice - C: WFM's equity property base is encountering severe problems centered in a few properties. Hold for long-term recovery.

Address: 420 Montgomery St., San Francisco, CA 94104. Ph: (415) 396-3381.